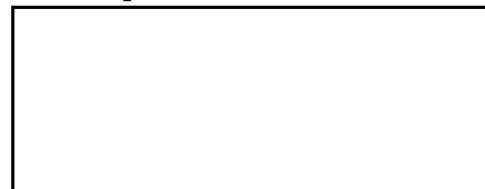


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INTERNATIONAL MONETARY DEVELOPMENTS: West German Finance Minister Schmidt reportedly plans to do nothing to stop the continuing rapid appreciation of the mark.

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He claims to be willing to see the mark climb as an effective weapon against German inflation because of the anticipated adverse impact of currency appreciation on domestic export industries.

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Schmidt's equanimity about the mark probably is not shared by Bonn's partners in the European joint float. The mark has been helping to pull up these nations' currencies against the dollar, adding to what they perceive as a threat to their competitive positions in international markets. France, especially, is concerned over the continuing appreciation of the European currencies. So far, Paris has blamed the situation mainly on Washington, but if the mark continues to climb, the French may well try to persuade Bonn to take positive action--perhaps another tightening of German capital controls--to dampen upward pressures on the mark.

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Meanwhile, some major Swiss bankers reportedly expect the independently floating Swiss franc, which also has appreciated rapidly in recent months, to appreciate by another 20 percent by the end of the year. The Swiss foresee a temporary dollar recovery in the summer, because of improvements in the US trade balance and because they expect a calmer political atmosphere. In the last quarter, however, they believe a combination of a US refusal to support the dollar, inflation, and the energy crisis will again push the dollar down. They speculate that the gold price might reach \$160 an ounce by the year's end.

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Swiss bankers have generally taken a bleak view of prospects for stability in international money markets, and their analysis is, at best, questionable. Their views, however, can be influential. Exchange rate prophecies often become self-fulfilling if the prophets are also traders or advisers to other traders.

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European Communities: The Council meeting today and tomorrow will be an important test of the EC's readiness to negotiate on major trade issues. The two main questions to be considered are what compensation the EC might offer the US and the community's other trade partners for trade losses resulting from the EC's enlargement and the community's "over-all" approach to the multilateral trade negotiations.

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*\*This item was prepared by CIA without consultation with the Departments of State and Defense.*

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